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EXCISE

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ACTION AF-18

INFO OCT-01 E-15 INT-06 OEP-01 COM-08 SS-20 NSC-10 L-04
TRSY-11 CIAE-00 INR-08 NSAE-00 RSC-01 STR-08 PM-05
RSR-01 PRS-01 H-02 /120 W

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R 010758Z OCT 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 6966
INFO AMEMBASSY BENGHAZI

Libyan National Oil Corporation

C O N F I D E N T I A L TRIPOLI 2361

SUBJ: LNOC JOINT VENTURES

REF: TRIPOLI 1945 Pet 6 Libya

1. EMBOFF DISCUSSED STATUS LNOC JOINT VENTURE NEGOTIATIONS WITH [redacted] ARABIAN BECHTEL AND SANTA FE DRILLING. SENIOR EXECUTIVES OF BOTH COMPANIES RECENTLY HAVE CONCLUDED INITIAL ROUND OF TALKS WITH LNOC -- RESULTING IN DEFINITION OF MAJOR AREAS FOR FURTHER NEGOTIATION WITH SANTA FE AND IN VERBAL AGREEMENT ON OUTLINE OF JOINT VENTURE TERMS. IN CASE OF BECHTEL, EMBOFF LEARNED THAT TWO COMPANIES APPARENTLY BEING TREATED IN SIGNIFICANTLY DIFFERENT FASHION. B4

2. THREE MAJOR AREAS ARE INVOLVED:

A) GUARANTEE OF LNOC'S PAYMENT OF 51 PERCENT SHARE OF JOINT VENTURE. IN SANTA FE CASE, LNOC PROPOSES TO MAKE PAYMENT FROM FUTURE EARNINGS WITHOUT ANY GUARANTEE FROM BANK OF LIBYA (BOL). BECHTEL, HOWEVER, BELIEVES IT HAS LNOC'S AGREEMENT IN PRINCIPLE THAT PAYMENT WILL BE BACKED BY BOL GUARANTEE.

(3)

B) MANAGEMENT CONTROL: SANTA FE - LNOC WISHES EXERCISE AN ACTIVE PART IN DAILY MANAGEMENT DECISIONS (IMPLOYMENT TERMINATIONS, ASSIGNMENT OF JOB PRIORITIES), WHILE SANTA FE CONSIDERS THAT LNOC UNABLE, AT PRESENT, TO PROVIDE NECESSARY MANAGERIAL AND TECHNICAL SKILLS. BECHTEL UNDERSTANDS ITS MANAGING DIRECTOR WILL BE GIVEN WIDE POWERS TO CONDUCT ALL PHASES OF JOINT VENTURE'S OPERATIONS.

C) BOARD OF DIRECTORS: SANTA FE WANTS POLICY DECISIONS TO BE

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BINDING ONLY WHEN AT LEAST ONE OF SANTA FE'S TWO MEMBERS OF FIVE-MAN BOARD VOTE WITH LNOC GROUP. LNOC HAS ACCUSED SANTA FE OF SEEKING A VETO AND IS UNWILLING TO CONCUR IN THIS PROPOSAL. BECHTEL, HOWEVER, HAS BEEN PROMISED THAT BOARD DECISION OF THE JOINT VENTURE WILL ONLY BE BINDING WHEN AT LEAST ONE BECHTEL MEMBER SUPPORTS ANY GIVEN POLICY.

3. NEITHER EMBASSY NOR COMPANIES CAN FATHOM RATIONALE FOR THIS DISPARITY IN TREATMENT. SINCE LEVEL OF TECHNICAL EXPERTISE IS PROBABLY HIGHER IN SANTA FE'S DRILLING OPERATION THAN IN BECHTEL'S CONSTRUCTION ACTIVITIES, IT WOULD APPEAR THAT FAVORABLE TREATMENT WOULD MORE NORMALLY BE ACCORDED SANTA FE. THUS, AT LEAST ON SURFACE AND ASSUMING THERE IS A REASONABLE DEGREE OF COMMON UNDERSTANDING BETWEEN LNOC AND ITS RESPECTIVE INTENDED PARTNERS, SANTA FE CONSIDERS THERE ARE MAJOR AREAS OF DISAGREEMENT TO BE RESOLVED WHILE BECHTEL CONSIDERS NEGOTIATIONS HAVE GONE SMOOTHLY. FURTHER MEETINGS WITH THESE AND OTHER JOINT VENTURE PARTNERS ARE SCHEDULED THROUGHOUT OCTOBER. GP-4.
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